STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY d/b/a Ameren Illinois, Petitioner Rate MAP-P Modernization Action Plan - Pricing Annual Update Filing	))))))	Docket No. 13-0301

REPLY BRIEF OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

Kimberly J. Swan
James V. Olivero
Michael J. Lannon
Office of General Counsel
Illinois Commerce Commission
160 N. LaSalle St., Suite C-800
Chicago, IL 60601
Phone: (312) 793-2877
Fax: (312) 793-1556
jolivero@icc.illinois.gov
mlannon@icc.illinois.gov
kswan@icc.illinois.gov

Counsel for Staff of the
Illinois Commerce Commission

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NOW COME the Staff witnesses of the Illinois Commerce Commission ("Staff"), by and through their undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce Commission's Rules of Practice (83 Ill. Adm. Code 200.800), and respectfully submit their Reply Brief ("RB") in the instant proceeding.

I. INTRODUCTION

A. Introduction

Section 16-108.5 of the Public Utilities Act ("PUA" or "Act") provides that an electric utility or combination utility (providing electric service to more than one million customers in Illinois and gas service to at least 500,000 customers in Illinois) may elect to become a "participating utility" and voluntarily undertake an infrastructure investment program as described in the Section. A participating utility is allowed to recover its expenditures made under the infrastructure investment program through the ratemaking process, including, but not limited to, the performance-based formula rate and process set forth in Section 16-108.5. (220 ILCS 5/16-108.5(b).) Section 16-108.5(d) of the Act requires a participating utility to file, on or before May 1 of each year, with the Chief Clerk of the Commission its updated cost inputs to the performance-based formula rate

for the applicable rate year and the corresponding new charges, based on final historical data reflected in the utility's most recently filed annual FERC Form 1, plus projected plant additions and correspondingly updated depreciation reserve and expense for the calendar year in which the inputs are filed. (220 ILCS 5/16-108.5(d).)

On January 3, 2012, the Ameren Illinois Company d/b/a Ameren Illinois ("AIC" or "Ameren" or "Company") filed with the Illinois Commerce Commission ("Commission") its performance-based formula rate tariff, Rate MAP-P Modernization Action Plan—Pricing Tariff ("Rate MAP-P"). That docket established the terms of the formula. On April 20, 2012, AIC filed its updated cost inputs to the performance based formula rate for the applicable rate year and new corresponding charges.

On April 19, 2013, Ameren filed its annual update of cost inputs pursuant to Section 16-108.5(d) of the Act. This docket is Ameren's third filing under the Electric Infrastructure Modernization Act ("EIMA"). In this docket, the Commission will establish a new revenue requirement to take effect on January 1, 2014 based on the historical FERC Form 1 reports for 2012 and projected plant additions for 2013 and reconcile the revenue requirement for 2012 with actual costs for 2012. The reconciliation balance will be added to the new revenue requirement and collected in rates effective on January 1, 2014.

Staff proposed various adjustments and changes to AIC's proposed revenue requirement. AIC accepted some of Staff's adjustments and Staff withdrew others. A summary of Staff's final revenue requirement recommendations to the Commission in this proceeding is attached as Appendices A and B, reflecting a correction addressed further in Section III.B.2 below as well as the adoption of the AG's Advertising and Public Relations adjustment addressed in Section III.B.7.

Initial Briefs ("IB") were filed on October 2, 2013 by the Illinois Industrial Energy Consumers ("IIEC"); the Citizens Utility Board ("CUB"); the People of the State of Illinois ("People"); Staff; and Ameren. Staff's IB identified and responded to many if not most of the arguments raised in Ameren's IB. In this Reply Brief, Staff has incorporated many of those responses by reference or citation to Staff's IB. However, in the interest of brevity, Staff has not raised and repeated every argument and response previously addressed in Staff's IB. Thus, any omission of a response to an argument that Staff previously addressed simply means that Staff stands on the position taken in Staff's IB because further or additional comment is neither needed nor warranted.

B. Nature of AIC's Operations

C. Legal Standard

The provisions of EIMA, specifically, Section 16-108.5(d) provides in relevant part:

> Subsequent to the Commission's issuance of an order approving the utility's performance-based formula rate structure and protocols, and initial rates under subsection (c) of this Section, the utility shall file, on or before May 1 of each year, with the Chief Clerk of the Commission its updated cost inputs to the performance-based formula rate for the applicable rate year and the corresponding new charges.

(220 ILCS 5/16-108.5(d))

Section 16-108.5(d) further specifies the requirements for this annual filing as follows:

> Within 45 days after the utility files its annual update of cost inputs to the performance-based formula rate, the Commission shall have the authority, either upon complaint or its own initiative, but with reasonable notice, to enter upon a hearing concerning the prudence and reasonableness of the costs incurred by the utility to be recovered during the applicable rate year

> that are reflected in the inputs to the performance-based formula rate derived from the utility's FERC Form 1.
>
> . . .
>
> In a proceeding under this subsection (d), the Commission shall enter its order no later than the earlier of 240 days after the utility's filing of its annual update of cost inputs to the performance-based formula rate or December 31.
>
> . . .
>
> A participating utility's first filing of the updated cost inputs, and any Commission investigation of such inputs pursuant to this subsection (d) shall proceed notwithstanding the fact that the Commission's investigation under subsection (c) of this Section is still pending and notwithstanding any other law, order, rule, or Commission practice to the contrary.

(Id.)

Section 16-108.5(d) further specifies the requirements for the reconciliation filing as follows:

> The filing shall also include a reconciliation of the revenue requirement that was in effect for the prior rate year (as set by the cost inputs for the prior rate year) with the actual revenue requirement for the prior rate year (determined using a year-end rate base) that uses amounts reflected in the applicable FERC Form 1 that reports the actual costs for the prior rate year. Any over-collection or under-collection indicated by such reconciliation shall be reflected as a credit against, or recovered as an additional charge to, respectively, with interest calculated at a rate equal to the utility's weighted average cost of capital approved by the Commission for the prior rate year, the charges for the applicable rate year. Provided, however, that the first such reconciliation shall be for the calendar year in which the utility files its performance-based formula rate tariff pursuant to subsection (c) of this Section and shall reconcile (i) the revenue requirement or requirements established by the rate order or orders in effect from time to time during such calendar year (weighted, as applicable) with (ii) the revenue requirement determined using a year-end rate base for that calendar year calculated pursuant to the performance-based formula rate using (A) actual costs for that year as reflected in the applicable FERC Form 1, and (B) for the first such reconciliation only, the cost of equity, which shall be calculated as the sum of 590 basis points plus the average for the applicable calendar year of the monthly average yields of 30-year U.S. Treasury bonds published by the Board of Governors of the Federal Reserve System in its weekly H.15 Statistical

> Release or successor publication. The first such reconciliation is not intended to provide for the recovery of costs previously excluded from rates based on a prior Commission order finding of imprudence or unreasonableness. Each reconciliation shall be certified by the participating utility in the same manner that FERC Form 1 is certified. The filing shall also include the charge or credit, if any, resulting from the calculation required by paragraph (6) of subsection (c) of this Section.
>
> Notwithstanding anything that may be to the contrary, the intent of the reconciliation is to ultimately reconcile the revenue requirement reflected in rates for each calendar year, beginning with the calendar year in which the utility files its performance-based formula rate tariff pursuant to subsection (c) of this Section, with what the revenue requirement determined using a year-end rate base for the applicable calendar year would have been had the actual cost information for the applicable calendar year been available at the filing date.

(Id.)

II. RATE BASE

A. Resolved Issues

1. Construction Work in Progress (CWIP)

a. Accounts Payable

b. Duplicate Projects

B. Contested Issues

1. Cash Working Capital

a. Pass Through Taxes

Staff recommends that the Commission use greater lead days than used by AIC for pass-through taxes: Energy Assistance Charges ("EAC"), and Municipal Utility Tax ("MUT"). (Staff IB, 5.) Staff's cash working capital ("CWC") calculation differs from AIC's in that Staff uses AIC's calculation of lead days based on when pass-through taxes are required to be remitted, while AIC calculates lead days based on when AIC bills for

services. (Id., 6.) AIC's practice of remitting pass-through taxes earlier than required unnecessarily increases rate base by increasing CWC. (Id., 7.) Ratepayers should not be penalized solely because of AIC's practice of remitting pass-through taxes earlier than they are due. (Id.)

Unlike its position regarding income tax expense lead days, AIC does not rely on the Commission's findings in Docket Nos. 12-0001 and 12-0293 for support of its CWC position. (AIC IB, 6.) AIC claims that Staff's reliance on past Commission decisions is misplaced since the Commission did not make any express finding on the pass-through taxes expense leads in Docket Nos. 12-0001 and 12-0293. (Id., 6.) It is true that the Commission did not make any express finding regarding pass-through taxes expense leads in the two most recent electric formula rate cases. However, what AIC fails to acknowledge is that the Commission approved the calculation and resulting amount of CWC, which includes all revenue lag days and all expense lead days, in those dockets. In both dockets, the Commission correctly adopted EAC and MUT lead days based on when the pass-through taxes were actually due; not when remitted by AIC. (Staff IB, 6.)

AIC's claim that the adoption of the lead days recommended by Staff and the AG will cause AIC to change its remittance practices to comport with the imputed expense lead days is misleading. (AIC IB, 7.) Staff's proposal is for rate making purposes only. Even if the Commission adopts Staff's proposal, AIC would not need to alter its remittance practices. (Staff IB, 7.) AIC chose its current practice for its own reasons, whether those be cost, convenience, or some other reason. Whatever the reason, AIC can continue to enjoy the benefits of its decision, but it should not expect ratepayers to foot the bill.

AIC contends that it would be required to make systems-related changes prior to implementing any such modifications in the remittance schedule, which could take substantial time and expense. (AIC IB, 7.) AIC is free to make such changes if it wishes; however, these changes would benefit only AIC and should not be passed on to ratepayers.

b. Income Tax Expense Lead Days

Staff recommends that the Commission not set income tax lead and lag days to zero as proposed by AG witness Michael L. Brosch. (AG Ex. 1.0, 25-26.) Unlike its position regarding pass-through taxes, AIC relies on the Commission's findings in Docket Nos. 12-0001 and 12-0293 for support of its CWC position. (AIC IB, 8.)

As proposed by AIC, Staff continues to support the position of not considering current and deferred income taxes separately. This position is consistent with Commission practice. (Staff IB, 7-8.)

2. Accrued Vacation Reserve

AIC's arguments presented in its IB concerning accrued vacation pay persist in clouding the relevant facts in this case. AIC claims that there is no cash associated with the accrued liability and that it is simply an accounting convention required to recognize the vacation time earned but not taken. (AIC IB, 9-10.) In support of its argument, AIC merely references the same misleading table in its IB that Staff has already addressed as incorrect in rebuttal testimony. (Staff Ex. 7.0, 13.) The AG concurs with Staff's opinion of AIC's misleading table. (AG IB, 22-23.)

AIC's argument ignores the important fact that the accrued vacation is recorded as a payroll expense and is included in the revenue requirement operating statement on which rates are set. As such, the ratepayers are funding the accrued vacation liability

prior to the time the vacation is actually paid in cash. (Staff IB, 8 .) Thus, the shareholders have use of those funds for potentially a year or more. Since AIC did not make a ratemaking adjustment to remove the accrued vacation from payroll expense, AIC admitted that ratepayers have funded the accrual. (Tr., 183:3-6 September 17, 2013.) Therefore, the Commission should not stray from its decision in Dockets Nos. 12-0001 and 12-0293 on this issue in the instant case.

3. ADIT for Metro East Transfer

Staff continues to support its recommended adjustment to ADIT related to the 2005 transfer of the Metro East assets, as set forth in Staff's IB, and continues below to address additional arguments brought forth by AIC in its IB. AIC argues "[t]he uncontroverted evidence shows that the ADIT impact of the transfer has not harmed ratepayers but benefited them." (AIC IB, 14.) Nonetheless, the premise that ratepayers have benefitted is simply not true.

The argument that there was no increase in rate base is in conflict with AIC's own admission, since ADIT reduces rate base, recording this deferred tax asset (the subject of the adjustment) had the effect of temporarily increasing rate base. (AIC IB, 12.) "Temporary" is a relative term since the increase in rate base was birthed upon the transfer transaction in 2005 and the increased rate base is still present as of year-end 2012. There was no benefit to ratepayers in the recording of the deferred tax asset. In fact, the exact opposite has occurred since ratepayers, to their detriment, would now be required to pay a return on an increased rate base. (Staff Ex. 2.0, 15.)

All of the various ADIT segments: UE ADIT (pre-transfer Account 282), Step-up deferred tax asset (Account 190), and CIPS ADIT (post transfer Account 282) are temporary in nature due to tax depreciation that generates timing differences in the

recognition of income tax expense. Staff does not contest the accounting for UE assets at transfer or post transfer. Staff contests the ratemaking treatment of the Step-up deferred tax asset.

The Step-up deferred tax asset continues to decline via amortization. (AG IB, 25.) Likewise, the UE ADIT should continue to decline to match the change in the Step-up deferred tax asset. The CIPS ADIT on the transferred assets would begin to accumulate since the tax depreciation started over. (AIC IB, 14.) In its IB, AIC claims that the CIPS ADIT likely now exceeds, and certainly will exceed the UE ADIT in the future. This premise is unfounded, as there is no evidence in the record as to the calculation of the ADIT segments to support this likelihood nor a description of the methodology utilized to support this assertion. In fact, AIC admits in its response to AG DR 8.10 (AG Cross Exhibit 7.) that "[t]he income tax records in Account 282 were not maintained separately for the Metro East assets; therefore we could not separate the ADIT entries related to those assets." (AG IB, 25.)

As stated above, the Step-up deferred tax asset offsets the UE ADIT, thus depriving Illinois ratepayers of the ADIT benefit that had accumulated on the plant during its ownership by UE. (AG IB, 23.) Rather, AIC claims that Staff's proposed adjustment would in affect result in a double counting of UE ADIT. (AIC IB, 16.) The AG in its IB succinctly addressed this argument. Tax depreciation on the transferred assets was reset to zero of a twenty year schedule upon transfer. A full amount of ADIT will over time accrue on the transferred assets and be deducted from AIC's rate base. To also include the UE ADIT would be double counting. However, money has a time value, acknowledged by AIC witness Stafford in his testimony, and Illinois ratepayers should receive that benefit sooner rather than later. (AG IB, 26.) The Staff and AG adjustment

would restore a portion of that benefit to Illinois ratepayers. Any future benefit that could occur will only partially offset the harm that has been done to ratepayers since the transfer transaction.

AIC attempts to advance a new regulatory concept in its IB when it also states that the Commission has specifically approved the transfer and related accounting of the Metro East assets and suggests that the issue of ratemaking treatment for ADIT, therefore, is off the table in this proceeding. (AIC IB, 16.) Specifically, the Company states that "it is questionable whether an appropriately accounted-for transfer should ever provide the basis for a rate penalty." (Id.) AIC misses the mark here. While the Commission approved the Metro East asset transfer in ICC Docket No. 03-0657, the notion that the Commission may not establish the rate treatment here is simply not true. (Central Illinois Public Service Company, Union Electric Company, ICC Order Docket No. 03-0657, 18 (Sept. 22, 2004).) AIC's initial brief selectively cites the Commission's approval of the transfer, which is correct but is irrelevant to the issue. Staff and AG are not contesting the approval of the transaction in Docket No. 03-0467, only the ratemaking effect that is included in rate base in the current formula rate case's test year. Not only was the approval made subject to conditions (Id.), no approval of ratemaking treatment for this issue was granted to apply to future rate cases. For the Commission to do so would be contradictory to its own Uniform System of Accounts ("USOA"). 83 Ill. Adm. Code 505. Section 505.210(B) of the Commission Rules states: "[t]he Commission does not commit itself to the approval or acceptance of any item set out in any account, for the purpose of fixing rates or in determining other matters before the Commission." (83 Ill. Adm. Code 505.210(B).)

AIC also makes the assertion that Staff and AG are incorrect in stating that the Commission has not had the opportunity in the last two AIC formula rate proceedings to fully address the propriety of the increase to the asset value between affiliates. (AIC IB, 16.) As Staff has pointed out, in this case, there is more evidence of the ratemaking effect of the transfer on the record than in the previous two formula rate cases. (Staff Ex. 7.0, 16.) One significant piece of evidence is AIC's response to Staff DR JMO 9.02 (Id., Attach. A.), which asked the Company to: (1) agree or disagree with the table Staff provided in the data request that showed the ratemaking effect of the Metro East transfer (*i.e*., the resulting higher rate base for CIPS); and (2) provide a revised version of the table with an explanation of why a revision was necessary for each component in the table with which AIC disagreed. AIC's response indicated agreement with all the ratemaking effect components listed on the table provided by Staff and further, offered no additional refinements to the table. (Id.) That information was not elicited during either of the two prior formula rate cases which AIC now claims are definitive on this issue. To be clear, AIC argued in Docket No. 12-0293 that the Metro East transfer had a zero effect on its rate base, an argument which now has been shown to be incorrect. (Ameren Illinois Company, ICC Order Docket No. 12-0293, 30 (December 5, 2012).) This additional evidence supports a conclusion accepting the Staff and AG adjustment.

4. OPEB Contra Liability

Staff witness Pearce proposed an adjustment to remove from rate base $827,000 for the Other Post-Employment Benefits ("OPEB") Contra-Liability balance, net of Accumulated Deferred Income Taxes ("ADIT") (Staff Ex. 3.0, Schedule 3.01; Staff Ex. 8.0, Schedule 8.01.) based on the fact that ratepayers have supplied (and continue to supply) the cash for the OPEB expenses through on-going utility rates. (Staff Ex. 8.0,

7:94-99.) As Staff has discussed previously, ratepayers should not have to provide shareholders with a return on excess contributions. (Id.)

AIC argues that because the approved formula rate schedules have a specific line item on Sch. FR B-1 for inclusion of the OPEB liability balance in rate base, this permits inclusion of a "contra-liability" balance, that is, an increase to rate base. (AIC IB, 17.) Staff refutes this claim on grounds that a formula rate schedule does not and should not determine which costs are just, reasonable and recoverable, as noted in Staff rebuttal testimony. (Staff Ex. 8.0, 7-8:101-124.)

AIC further argues that the use of accrual basis accounting for purposes of OPEB expense recovery in rates permits the Company to earn a return on amounts paid into the OPEB Trust fund whenever cash payments into the Trust exceed the accrual basis expense for the period. (AIC IB, 17-18.) Staff disagrees; the "contra liability" is merely a timing difference, as AIC agrees. (Id., 18.) The existence of a timing difference does not change the underlying source of funds. Staff notes that the Company provided no evidence that any excess contributions to the trust fund were made with discrete shareholder contributions, e.g., funds obtained from sources *other than operating revenues*. (Staff IB, 10.)

AIC presupposes the source of excess OPEB funds in the instant proceeding is unresolved, asserting: "[t]he crux of the dispute is whether the funds paid into the OPEB Trust in excess of the accrual expense amount are funds provided by ratepayers." (AIC IB, 18.) Staff avers that in the absence of evidence that discrete contributions from shareholders provided the excess monies paid into the OPEB Trust, the only possible source of funds would be the operating revenues provided by utility rates collected from ratepayers. This is also why AIC's assertion that "symmetry requires that AIC include

the additional amount in rate base" (AIC IB, 20.) is patently false. Because ratepayers, not shareholders, supply the monies for OPEB expense, true symmetry requires that shareholders not be allowed to earn a return on ratepayer-supplied funds.

Additionally, AIC mischaracterizes Staff's response to an AIC-Staff DR (Staff Ex. 8.0, Att. A, 25.) in an attempt to support the false notion that similarities between pension assets and OPEB contra-liabilities would require the same treatment pursuant to EIMA. (220 ILCS 5/16-108.5(C)(4)(D).) In other words, AIC tries to use Staff's DR response, which does *not* support rate base recovery of the OPEB contra-liability, to assert that OPEB contra liabilities should be accorded the same treatment as pension assets because of an alleged similarity between the two accounts. (AIC IB, 20.) AIC conveniently and obviously overlooks Staff's actual response: that Section 16-108.5(4)(D) of the Act specifically addresses the treatment of pension assets, but clearly does not address OPEB contra-liabilities. (Staff Ex. 8.0, Att. A, 26.) Because this issue does not concern a pension asset, AIC's arguments concerning pension assets are irrelevant and should be ignored.

Staff avers that the Commission has held the position in numerous prior cases that ratepayers bear the obligation for pension and OPEB expenses, including several North Shore and Peoples Gas Orders. (ICC Order Docket Nos. 07-0241/07-0242 (Cons.) (February 5, 2008); ICC Order Docket Nos. 09-0166/09-0167 (Cons.) (January 21, 2010); ICC Order Docket Nos. 11-0280/11-0281 (Cons.) (January 10, 2012); and ICC Order Docket Nos. 12-0511/12-0512 (Cons.) (June 18, 2013).) In contrast to AIC's claim that these cases are inapposite (AIC IB, 20.), Staff reminds the Commission that the issue of whether ratepayers or shareholders bear the obligation for pension and OPEB costs was the subject matter in those cases. Because the Commission agreed

that ratepayers supply the monies for pension and OPEB obligations, there is no need to provide shareholders with a return on ratepayer-supplied funds. That conclusion is directly applicable to the issue in the instant proceeding and the Commission has repeatedly affirmed it.

In a final attempt to convince the Commission that Ameren shareholders are entitled to earn a return on monies collected from AIC ratepayers, AIC cites the two Commonwealth Edison cases, *Commonwealth Edison Co*., ICC Order Docket No. 10-0467, Order, 50-51 (May 24, 2011) and *Commonwealth Edison Co*., ICC Order Docket No. 05-0597, Order on Reh'g, 28 (December 20, 2006), in which ComEd shareholders were allowed some type of return on excess funds paid to the pension trust.

Those cases truly are inapposite to the instant proceeding, however, because ComEd provided evidence of discrete shareholder contributions in both cases, a fact not in evidence in this proceeding. Accordingly, in this proceeding, no basis exists for the Commission to consider anything beyond the source of the monies -- revenues collected from ratepayers in the form of utility rates. Staff urges the Commission to accept Staff's adjustment because it is consistent with numerous prior Commission decisions that correctly recognize ratepayers provide the funding for OPEB expenses and they should not be required to pay shareholders a return for monies that they (ratepayers) provided. Therefore, the Commission should adopt Staff's adjustment to exclude the "OPEB Contra-Liability" from rate base.

C. Original Cost Determination

D. Recommended Rate Base

1. Filing Year

2. Reconciliation Year

III. OPERATING EXPENSES AND EXPENSES

A. Resolved Issues

1. Company Use of Fuels

2. Outside Professional Services

a. Illinois Power Payments

c. SFIO Non-Rate Case Expense

3. Incentive Compensation – Derivative Adjustment

4. Rate Case Expense

a. Legal Standard – Recoverability of Docket 12-0001 and 12-0293 Costs

b. Amount to be Recovered in Rates

5. Industry Dues Expense

6. Miscellaneous General Expense (Wells Fargo)

7. Strategic International Group Expense (Account 909)

8. Account 588 – Miscellaneous Distribution Expense:

a. Economic Consulting Fees

b. Advertising Costs

c. Individual Expenses

e. Purchases – Other (Reclassified Capital)

f. Purchases – Other (Reclassified Rate Case Expense)

g. Relocation Expense (AIC Self-Disallowed Expense)

9. Miscellaneous Operating Revenues – Overhead and Miscellaneous

B. Contested Issues

1. Miscellaneous Operating Revenues - ARES

The AG proposed an adjustment increasing the Company's Miscellaneous Operating Revenues for "vacating frequencies under Microwave Relocation Contracts." (AG IB, 29-34.) While Staff did not take a position on this issue in testimony in this proceeding, Staff supports this adjustment by the AG because, as the AG correctly points out, "such revenues are not reflected in either the transmission of the distribution revenue requirement . . . ratepayers are unfairly and unreasonably denied the benefit of these revenues."(Id., 33.) However, it is unclear which allocator should be used for the calculation of the adjustment. In rebuttal testimony, the AG recommends that 92.06% of the revenues from the "sale of spectrum" be allocated to distribution. (AG Ex. 3.0, 6:132-134.) But in the AG's IB, the AG references AG Exhibit 1.3, which bases the adjustment for these revenues on the AIC Net Plant Allocation Factor of 79.99%. (AG IB, 34.) Since the AG's rebuttal testimony also references AG Exhibit 1.3 in its ultimate recommendation (Id., 7:135 – 139.), Staff supports the $1,028,180 increase to the Company's Miscellaneous Operating Revenues that reflects a 79.99% allocation factor for distribution.

2. Relocation Expense – Loss on Sale and Payroll Uploading (Account 588)

Most of the arguments raised in the AIC IB have already been addressed in Staff's IB for the Relocation Expense – Loss on Sale and Payroll Uploading costs and will not be repeated here. However, certain arguments posed by the Company merit response. Ameren explains that it routinely compares its benefits against programs offered by other large, local employers and utility peers and concludes the "[m]ost large employers provide relocation benefits similar to the benefits provided by Ameren's plans." (AIC IB, 34.) This argument fails on two levels.

First, the fact the Ameren compares its benefits to programs offered by other local employers misses the point of Staff's adjustment. Staff does not recommend that Ameren change its program, Staff simply recommends that the costs for the "Loss on Sale" provision should not be recovered from ratepayers. Ameren does not indicate how those "other local employers" recover the costs of the programs offered, or if those other businesses charge regulated rates to their customers. Since Ameren's cost are recovered through regulated rates, additional scrutiny of the costs to be recovered is necessary.

Second, while, in Ameren's opinion, the *benefits* offered by the other employers are similar to Ameren's relocation benefits, the detail supporting that conclusion is not in the record. Nothing has been provided to indicate that those employers have the same loss on sale provision in their relocation policy, or even if those employers have a relocation policy included in their employee benefit plans.

Ameren states that the standard to be applied is "whether the expense is prudently incurred, reasonable in amount, and related to electric delivery service" and that Staff's basis for the adjustment to remove loss on sale costs is inadequate. (Id., 35.) While Staff does not make the direct claim that the relocation costs at issue are

"imprudent or unreasonable," the AG correctly states the law regarding a finding of imprudence and unreasonableness. (AG IB, 9 (*citing Commonwealth Edison Co. v. Ill. Commerce Comm'n*, 405 Ill. App. 3d 389, 398 (2010) ("Costs that are unnecessary to the provision of service, or that the utility has not justified in amount are not reasonable or prudent.")).) Clearly, the Company's criticism of Staff's position is without merit; the Company has failed to adequately justify the costs in question, therefore those costs are not reasonable or prudent and Staff's adjustment to remove them should be adopted.

Next, the Company claims that elimination of the "loss on sale" benefit would cause hardship to employees relocating and would decrease their likelihood of accepting a job offer at Ameren (AIC IB, 35-36.). However, no evidence was provided that any potential employee's acceptance of a job offer was contingent on receiving the loss of sale benefit.

The Appendices attached to Staff's IB reflected a double-counting of a portion of Relocation Costs. The "Loss on Sale" calculations (Staff IB, Appendix A, Schedule 10, p. 2, line 2 and Staff IB, Appendix B, Schedule 8, p. 2 line 2) do not reflect the removal of $7,525 by the Company, which is already included in the amount on line 1 of both referenced IB Appendices. The Schedules attached to this reply Brief, reflect the corrections necessary to accurately present Staff's adjustment. The Commission should accept this corrected adjustment to remove these costs from recovery in delivery service rates.

3. Purchases – Other (Account 588)

Ameren claims that "better support" has been provided for the costs disallowed by Staff than was provided in Docket No. 12-0293, however, that support, by the Company's own admission, was not provided until the surrebuttal testimony and exhibit

of AIC witness Pate. (AIC IB, 41-42.) While additional explanations for specific purchases may have been provided in the Company's surrebuttal testimony, those explanations, provided too late in the case for Staff to respond, do not support recovery of the costs at issue in delivery rates. (Staff IB, 21-28.) While Ameren may have indicated these costs were "work-related," the question to be answered here is whether the costs should be recovered from ratepayers through delivery service rates. Based on the evidentiary record in this case, the answer to that question is no.

Electronic Devices

Ameren argues that the on-going concern Staff raised over the need for specific expenses has been resolved by information contained in Ameren Ex. 19.1. (AIC IB, 44.) Nonetheless, the concern raised by Staff went beyond simply identifying a "business justification." Staff indicated a concern for the number of electronic devices that are purchased regularly and how they are accounted for, both for financial statement purposes and for physical control. In Staff's opinion, Ameren treats these electronic devices as disposable. (Staff Ex. 6.0, 14:269-278.) This is evidenced by the number of televisions and cell phones included in Staff's adjustment for Account 588, as well as in Staff's adjustment for Credit Card Purchases. Since Staff's review was so limited (a single general ledger account and 12 out of 1500 Ameren credit card accounts for 4 out of 12 months), it is certainly conceivable that many more such purchases remain unexamined within other Ameren accounts.

Cable Television Service

Ameren claims it has provided "better support" for cable or satellite television service. In the case of charges for satellite television service at various operation centers, AIC contends this expense "provides AIC with reliable, real-time information on

local news stories and extreme weather events in – or coming towards – AIC's service territory." (AIC IB, 45.) It is unclear exactly why AIC purchases "reliable, real-time information on local news stories and extreme weather events" by watching the same weather information that is broadcast free to the public through the internet, radio and local TV stations as it happens. It is equally unclear why AIC's system used to dispatch information to field personnel during normal work operations is not the primary means of communicating pertinent storm outage information to necessary personnel, instead of satellite television weather reports which duplicate information also monitored on computer and Internet resources. (Id.)

Flowers

With regard to the floral purchases, which the Company presents as "made in the utility's name" (Id., 46.), such purchases would actually be provided by ratepayers if the costs are recovered through delivery rates.

Safety Related Expenditures

Ameren claims that since it is committed to building and maintaining a culture of safety in the workplace and in the field, *all* of the expenses that it somehow relates to that safety initiative should be recoverable from ratepayers, even though monetary awards through the Company's incentive compensation program are already specifically allowed recovery through formula rates for this purpose. (Id., 47.) It is unclear how these *additional* safety recognition/achievement awards, beyond the monetary incentive compensation awards, further incentivize the employees of Ameren to conduct their job responsibilities in a safe manner. While the Company claims that the costs of these safety recognition/achievement awards are "more than offset by the avoided costs from the reduction in unsafe actions that cause damage to utility equipment, customers'

property, and loss of life" (Id.), no evidence was provided in the record to support that claim.

The Commission should approve Staff's adjustments disallowing Other Purchases in Account 588, as further supported by CUB. (CUB IB, 12.)

4. Other Credit Card Purchases

Staff proposes to remove $22,000 of unnecessary and non-recoverable charges made by Ameren employees using Ameren Company credit cards (formerly referred to as P-cards). (Staff IB, Appendix A, Schedule 11; Staff IB, Appendix B, Schedule 9.)

AIC claims that the disputed charges are prudent, reasonable in amount and reasonably related to the provision of electric delivery service, but this is only true if one accepts the Company's standard that these items are "work-related." (AIC IB, 48.) In response to Staff's contention that the charges should be necessary for the provision of utility service or that the charges should provide ratepayer benefit in order to be recovered, AIC claims the charges meet both criteria. (Id., 49.) In the case of charges for flat screen televisions and satellite television service at various operation centers, AIC contends these expenses "benefit customers by ensuring AIC employees meet customer expectations in the event of storm outages." (Id.) It is unclear exactly how AIC employees "meet customer expectations in the event of storm outages" by watching the same weather information that is broadcast free to the public through the internet, radio and local TV stations as it happens. It is equally unclear why AIC's system used to dispatch field personnel during normal work operations is not the primary means of communicating pertinent storm outage information to necessary personnel, instead of satellite television weather reports on flat screen TVs, as part of AIC's storm preparedness and response efforts (Id.)

Staff raises questions regarding the purpose and work-related use of the cell phones purchased with AIC credit cards. Given that AIC's current communication system already allows it to communicate with, and dispatch, employees to areas during normal work operations and during emergencies, it is unclear why employees need to have cell phones supplied by the Company. Assuming it was truly necessary for AIC's storm preparedness to have such cellular phones, and Staff does not concede that it is, it is reasonable to expect the Company to have provided such phones through a Company-wide contract obtained through a normal purchasing function. Such action would ensure that every employee who needs a cellular phone to do their jobs would have the cellular phone (1) in a timely manner; (2) at a Company-approved cost; (3) through an appropriate vendor; and (4) with the necessary features. The Company, however, has not done any of this. Staff believes these costs are duplicative, and therefore, the costs are excessive, unnecessary for the provision of delivery service, not providing ratepayer benefit, and constitute an employee perquisite. (Staff Ex. 8.0, Att. A, 34-36.)

AIC asserts that Staff has failed to address the adequacy of AIC's business justifications or the resulting ratepayer benefits, instead focusing on whether the disputed charges are similar to those disallowed in Docket No. 12-0293. (AIC IB, 50-51.) This assertion is patently false, as evidenced by Staff rebuttal testimony, which contains a listing of each disputed charge and the reasons for Staff's disallowance. (Staff Ex. 8.0, Att. A, 34-36.) These reasons are reflected in Ms. Pearce's analysis for each of the disputed charges that fell into one or more of the following categories:

(i) Unnecessary for the provision of utility service;

(ii) Does not provide benefit to ratepayers; may simply benefit AIC employees; and

(iii) Is not a prudent and reasonable business expense according to the standards identified in Docket No. 12-0293 for regulated monopoly businesses whose captive customers have no choice but to purchase electric delivery service from AIC.

(Staff IB, 27.)

Staff maintains its contention that the disputed charges should be disallowed on the basis that the disputed charges fall into one or more of the three categories above. Moreover, the disputed charges are not just and reasonable for the provision of delivery service in the context of the types of expenses that should be recovered from ratepayers by a regulated monopoly business, therefore, those costs fall outside Section 9-101 of the Act and should be disallowed. To the extent AIC disagrees with the standards cited by Ms. Pearce, the Company disagrees with the application of the standards established by the Act. Staff urges the Commission to support Staff's disallowance of these charges.

Both AG and CUB support disallowance of $4,843 in Ameren credit card charges. This amount was described by AIC itself as "comparable" to the types of credit card charges that were disallowed in Docket No. 12-0293. Staff completed a much more detailed review of Ameren Credit Card Charges during the 2012 reporting year in arriving at Staff's $22,000 disallowance. Therefore, Staff urges the Commission to remove $22,000 of unnecessary, unreasonable, excessive charges that are not necessary for the provision of electric delivery service and do not benefit ratepayers. Although such expenses may be permissible, or even usual, in an unregulated business

that competes with other unregulated businesses for customers, the expenses are not appropriate for rate recovery since AIC customers have no choice but to obtain delivery services from AIC. (Staff IB, 34.)

5. Sponsorship Expense (Account 930.1)

The Commission should adopt Staff's $94,057 adjustment to sponsorship expense. (Staff IB 36-38; Staff Sched. 10.1, 4a-4b.) AIC presents no new arguments in its IB that would compel Staff to change its adjustment. Staff will not address each point discussed therein, but the following flaws in Ameren's arguments are noted.

First, Ameren is inconsistent in its position on sponsorship expenses. Ameren applies the advertising standard prescribed by Section 9-225 of the PUA for certain sponsorships and then rejects it for other sponsorships, even though AIC stated from the onset of this proceeding that sponsorship and community outreach expenses should be evaluated as advertising expenses. (AIC Ex. 6.3.) Ameren further states in its IB that:

> [t]he emphasis in the Commission's review of sponsorships should refocus and remain on the permissibility and recoverability of expenses actually spent on advertising, rather than the financial contributions intended to improve the quality of life in AIC's service territory.

(AIC IB, 55.)

Staff's analysis is consistent with that approach. Staff disallowed those sponsorship and community outreach expenses that were: (1) not supported by an ad example; (2) not associated with an informational booth; or (3) not associated with the provision of a speaker. (Staff Ex. 10.0, 6-7.) Thus, Staff's sponsorship analysis is consistent with Ameren's "refocused" statement.

Second, Ameren freely admits that its goal of sponsorship expense is to provide financial support for the various entities. AIC states, with respect to the information provided in Ameren Ex. 24.1: "[t]his analysis identifies the educational, charitable and public welfare benefits that flow from AIC's *financial support* of local communities and organizations." (AIC IB, 54 (emphasis added); *see* Ameren Ex. 24.1.) AIC also states that: "the *funding* also helps ensure these organizations have the *resources* necessary to actually hold the youth events." (AIC IB, 61 (emphasis added).)

By these statements, Ameren not only attempts to shift the recoverability from the advertising standard in Section 9-225 (Advertising Expenses) to the public welfare standard of Section 9-227 (Donations; Consideration as Operating Expense), but also underscores Staff's position that the Commission should not rely on the Company's statements in its direct testimony (that the sponsorship and outreach expense are to be evaluated as advertising expense). Furthermore, Ameren should be held accountable for its testimony; it should not be permitted to rely on the Commission to identify the rationale for recovery of sponsorship expenses, as it attempts to do here. Ameren is solely responsible for submitting to the Commission a rationale and evidence that proves what the Company argues is the proper support for the recovery sought.

Section 9-225(2) of the PUA states that:

> In any general rate increase requested by any gas, electric, water, or sewer utility under the provisions of this Act, the Commission shall not consider, for the purpose of determining any rate, charge or classification of costs, any direct or indirect expenditures for promotional, political, institutional or goodwill advertising, unless the Commission finds the advertising to be in the best interest of the Consumer or authorized as provided pursuant to subsection 3 of this Section.

(220 ILCS 5/9-225(2).)

Furthermore, subsection 9-225(1)(d) of the Act defines "goodwill or institutional advertising" as:

> any advertising either on a local or national basis designed primary to bring the utility's name before the general public in such a way as to improve the image of the utility or to promote controversial issues for the utility or the industry.

(220 ILCS 5/9-225(1)(d).)

Therefore, sponsorships that are not evidenced by an ad, a booth, or a speaker are by default goodwill advertising, and thus, are not recoverable.

Third, Ameren argues that if it removes part of an expense for the tangible benefits received by Ameren employees (i.e., meals, tickets, etc.), then the remaining portion of the expenses should be recovered. (AIC IB, 55.) If a sponsorship expense, by its nature and purpose is a not recoverable expense, then removing a part of the expense for tangible benefits received continues to result in an unrecoverable expense, albeit a much smaller expense. (Id., 64.)

Finally, the sponsorship expenses adjusted by Staff are not necessary for the distribution of electricity or do not provide ratepayer benefits. (Staff IB, 36-38 and AIC IB, 63.) Nonetheless, Ameren would like the Commission to find that sponsorships, like the following, are necessary for the distribution of electricity:

- Tazwell Columbus Club Punkin Chuckin Sponsorship;
- Peoria Officials Association Sponsorship for Hospitality Room at March Madness;
- Peoria Chiefs Season Tickets; and
- Bradley University – Bradley Athletics Sponsorships.

(Staff Sched. 10.01.)

In Ameren's first formula rate proceeding, the Commission best summarized Ameren's sponsorships efforts, and found that these expenses should not be recovered in rates:

> But regardless of whether AIC received tangible benefits for its corporate sponsorships, the Commission cannot disregard the fact that the sponsorships bring AIC's name before the public in a philanthropic light. While AIC claims this is not its intention, this is the very meaning of goodwill advertising. AIC is free to be a good corporate citizen and enjoy the ensuing benefits, but it should not be free to pass on the costs to customers.

(Ameren Illinois Company, ICC Order Docket No. 12-0001, 95 (September 19, 2012).)

Once again, Ameren is again attempting to pass on to ratepayers the costs of goodwill advertising in this docket, and the Commission should adopt Staff's position on this issue, which is consistent with the Commission's finding in ICC Docket No. 12-0001.

6. Community Outreach Expense (Account 908)

The Commission should approve Staff's $6,380 adjustment to reduce community outreach expenses for the seven events in question. (Staff IB, 38-39.) These seven events are typically characterized as county fairs and festivals, and are identified in Staff's testimony. (Staff Ex. 10.0, Sched. 10.2.)

Like the sponsorship events discussed previously, Ameren stated in its direct testimony that the community outreach expense should be evaluated under the advertising standard in Section 9-225 of the Act. (AIC Ex. 6.3.)

Again, Ameren is requesting that the Commission disregard its direct testimony and consider the costs that were recorded as advertising costs now to be considered as donations under Section 9-227 (Donations; consideration as operating expense) of the Act instead. (Ameren IB 65-68.) The obvious problem with Ameren's approach is that it

cannot prove the Community Outreach expense (i.e., an advertising expense) was a charitable payment. A payment to a non-profit organization, in and of itself, is not evidence of a recoverable expense, although Ameren would like the Commission to believe it is. For example, a purchase of a car or truck from a non-profit is still a purchase of car or truck, not a contribution. Payments to a non-profit organization made in the form of goodwill advertising are non-recoverable expenses, not charitable contributions.

When Staff sought support for Ameren's position that the payments made to 501(c)(3) organizations were for charitable purposes, Ameren replied, in part:

> There are four 501(c)(3) organizations included in AIC response to SRK 1.01 (i.e., BAP 23.0 Attach in Docket No. 13-0192). . . . For these four sponsorships, AIC does not have acknowledgement letters that confirm the sponsorship amount.

(Staff Ex. 10.0 Attach. C, 1; AIC Resp. to Staff DR SRK 3.01.)

Furthermore, Ameren provides no evidence, other than financial support, to show how Ameren participated in the events. Ameren characterizes its involvement:"[c]ommunity relations coordinators, operating center staff, and other personnel involved in the community *typically represent* AIC at these events to engage with customers, answer questions and provide information customers can use to make informed decisions about their energy usage. The event *may present* AIC with *an opportunity* to distribute an information booklet." (AIC IB, 66 (emphasis added).)

Ameren's discussion alludes to what could have happened or what may happen. Ameren fails to provide any detail of who actually attended, what activity actually took place or why that particular expenditure was necessary for the distribution of electricity.

The second problem with Ameren's argument is that it presents a skewed notion of how the regulatory process works. Ameren states "Staff did not conduct any discovery prior to filing its direct testimony on AIC's sponsorship or community outreach expenses." (Id., 67.) Staff and Intervenors do not have the burden of supporting Ameren's filing; Ameren, however does. Ameren must provide sufficient information in the evidentiary record to support the recovery it seeks, and the Commission should deny any and all recovery sought by the Company which is insufficiently supported.

While the costs in question indicate financial support to the recipients, they provide no ratepayer benefits and are not necessary for the provision of utility service. Therefore, the Commission should accept Staff's community outreach adjustment.

7. Advertising and Public Relations Expense

a. Potentially Comparable Simantel Expense (Account 909)

b. Potentially Comparable Simantel Expense (Account 930.2)

Staff recommends that the Commission disallow approximately $68,000 of unsupported Focused Energy. For Life. ("FEFL") costs recorded in Account 930.2. (Staff IB, 39-40.) Ameren has not demonstrated that this expense is appropriate for ratepayer recovery, and the Company merely attempts to confuse the record.

First, AIC claims "Staff's direct testimony . . . didn't analyze the 2012 expenses and identify a basis in the record *in this proceeding* to support disallowance of each expense." (AIC IB, 70.) The only information available to Staff at the time of its direct testimony was Ameren's response to DR AG 2.11(c), which is limited to five cryptic

fields of information: (1) a voucher number; (2) a description of the expense[1]; (3) an amount allocated to electric operations; (4) an amount allocated to gas operations[2]; and (5) a total. Staff relied on the information available at the time in making its disallowance. (Staff Ex. 5.0, 126-130.) In direct testimony, both Staff and the AG witness disallowed the entire $99,479 of FEFL expense recorded in Account 930.2. (Staff Ex. 5.0, Sched. 5.3; AG Exhibit 1.3, 3.)

Ameren by its own admission believes that Staff's analysis is credible. Ameren witness Kennedy states in his critique of the AG's proposal that "[a]bsent the type of invoice-by-invoice review conducted by Mr. Knepler in this docket, it is not appropriate for the Commission to make adjustments to remove outside vendor expenses based upon disallowance factors that do not have a sufficient basis in the record." (AIC Ex. 24.0, 23:471-473.) Clearly, Staff has conducted this invoice-by-invoice review, and based on Staff's analysis and Ameren's failure to adequately support its proposal, the Commission should adopt Staff's adjustment.

Second, Ameren attempts to distract the Commission as to the points at issue. Ameren states that "[t]he information presented in Ameren Exhibits 24.3 and 24.6 also demonstrates the expenses Staff checks off as 'not necessary' are recoverable expenses. Whether an expense is 'necessary' misstates the dispute for the Commission to resolve. The issue in not whether the expense helps keep the lights on. The issue is whether the expense can be recovered through formula rates as prudent, reasonable in amount and related to delivery service." (AIC IB, 72.) In fact, the Commission has found that an expense must (1) be necessary for the provision of utility

[1] Examples of the descriptions are "Planning and evolution for the Focused Energy. For Life," "Clean Coal Messaging," and "Design Business Ad-Ameren's Economic Impact."

[2] The amount allocated to gas operation is zero, thus the amounts allocated to electric operations and the total are the same amount.

service; or (2) provide a benefit to the ratepayers in order for it to be recovered through formula rates as prudent, reasonable in amount, and related to delivery service. (220 ILCS 5/16-108.5(c)(1).)

It appears Ameren is arguing that an expense could be "prudent and reasonable in amount and related to delivery service" while at the same time being "not necessary for utility service." Staff believes the Commission has clearly held this is not the case. (AIC IB, 72; 220 ILCS 5/16-108.5(c)(1).)

Ameren failed to explain why the Illinois electric distribution ratepayer should bankroll, for example: (1) Ameren's message of support for economic development in the greater St. Louis area; (2) an update on the *methane to megawatts* educational TV message; and (3) a Powerpoint presentation on *clean coal research* to be presented by the CEO. (Staff Ex. 10.0, Sched. 10.3, 4:28; Sched. 10.3, 3:13-15 (emphasis added).) Ameren Illinois electric distribution ratepayers do not live in St. Louis, and should only be responsible for costs associated with the delivery of power in Illinois, not the production of power.

As an alternative to Staff's $68,000 FEFL adjustment, AG witness Brosch recommended that 100% or $95,705 of the payments to Simantel be disallowed. (AG Ex. 1.3 Corrected, 1; AG IB, 37-41.) Staff is not opposed to the AG's FEFL adjustment.

In addition, AG witness recommended that 50% or $298,242 of remaining public relation expenses paid to Simantel (i.e., the non-FEFL expenses or $743,635 - $95,705 x 92.06%) be disallowed. (AG Exhibit 1.3 Corrected, 3; AG IB, 37.) Staff supports this additional adjustment.

c. Other Simantel Expenses (Account 930.2)

d. Other Public Relations Expense (930.2)

AG witness Brosch proposed to disallow (AG IB, 41-44) the following public relations expenses from the 2012 reporting year revenue requirement, as shown on AG Exhibit 1.3 Corrected, page 3:

- Line 7, Karen Foss LLC, $42,015 of promotional, goodwill or image improvement advertising that is prohibited in Section 9-225(1)(a) of the Act (AG IB, 42.);
- Line 10, Obata Design, Inc., $5,989 relates to corporate goodwill and image enhancement (AG IB, 43-44.); and
- Line 13, St. Louis Business Journal, $13,995 of conference expenses that are unrelated to electricity delivery service and constitute corporate image enhancement or goodwill advertising. (AG IB, 42.)

Staff agrees that these are expenses for the type of promotional and goodwill advertising that is prohibited by Section 9-225(1)(a) of the Act. Staff therefore supports disallowance of these amounts.

C. Recommended Operating Revenues and Expenses

1. Filing Year

2. Reconciliation Year

IV. COST OF CAPITAL AND RATE OF RETURN

A. Resolved Issues

1. Rate of Return on Common Equity

2. CWIP Accruing AFDUC Adjustments

3. Balance and Embedded Cost of Preferred Stock

B. Contested Issues

1. Capital Structure

In accordance with Section 9-230 of the Act, Staff recommends the Commission adopt a capital structure for AIC that comprises the same 51.00% common equity ratio the Commission adopted in Docket No. 12-0293. Ameren Corporation ("Ameren Corp.") has a lower equity ratio than AIC, despite Ameren Corp.'s riskier unregulated subsidiaries, and the Company has never explained why AIC requires a higher common equity ratio than its riskier parent company. Thus, Staff's proposed adjustment aligns AIC's equity ratio, for ratemaking purposes, with the equity ratio of its parent company, in order to remove any incremental cost of capital due to AIC's unregulated and nonutility affiliates. (Staff IB, 42-51.)

AIC opposes Staff's adjustment and argues "without any quantitative assessment, Staff assumes that Ameren Corp.'s calculated common equity ratio of 51% after disposition of the merchant generation's debt and assets, is sufficient for AIC in this case." (AIC IB, 88.) To the contrary, Staff performed a quantitative analysis, which showed that reducing the Company's common equity ratio to 51% would not cause a credit rating downgrade for AIC. (Staff IB, 49-51.) Although AIC asserts its 54.33%

common equity ratio ensures strong credit metrics (AIC IB, 85.), Staff's quantitative analysis revealed very small differences in the financial risk benchmarks that S&P and Moody's calculate for AIC vis-à-vis the financial risk benchmarks resulting from imputing a 51% common equity ratio for AIC. (Staff IB, 49-51.) Further, putting aside the problems Staff identified with Ameren Ex. 5.3 (Staff Ex. 4.0, 18-19:325-340.), the Company's own evidence shows that during 2012, the average authorized common equity ratio for electric utilities was 51.28%. (Id., 19, fn 41.) Moreover, even though the Company claims that, "Staff . . . acknowledges that it was possible for AIC's credit quality to have been impaired in 2012 if it had used dividends to reduce its actual equity ratio to 51%" (AIC IB, 87.), Ms. Phipps clearly indicated that reducing the common equity ratio alone would not likely impair AIC's credit quality. (Tr., 373:13-374:14, Sept. 19, 2013.) Thus, Ameren Corp.'s 51% equity ratio is more than sufficient for AIC.

AIC argues that to offset credit rating agencies' concerns regarding the Illinois regulatory environment, AIC specifically maintained a higher equity ratio. (AIC IB, 86-87.) AIC argues further that it "left its actual capital ratio in place to preserve its credit quality, despite the Commission's decisions in prior formula rate cases, Dockets 12-0001 and 12-0293, to cap AIC's equity ratio based on its parent's capitalization." (Id., 87.) Yet, AIC made a presentation to all three of the ratings agencies in October 2012 that showed AIC expects its common equity ratio to fall from 54.0% to 51.1% between 2012 and 2015. (Staff Group Cross Ex. 15; Tr., 315:24 - 316:23, Sept. 18, 2013.) Despite this forecast, none of the credit ratings agencies have lowered AIC's ratings or placed those credit ratings on a negative outlook. To the contrary, in a report that was issued in January, 2013, three months after AIC's presentation, Fitch Ratings noted that

AIC's forecasted credit metrics "alone would likely warrant a one-notch upgrade." (Staff Ex. 9.0, Attach. I.)

AIC argues "examining all three credit reporting agency reports concerning AIC demonstrates clearly and irrefutably that the principle credit risk for AIC is the perceived (lack of) support in the Illinois regulatory environment." (AIC IB, 92.) As Staff explained, the credit rating agencies have recently noted positive developments in the Illinois regulatory environment. (Staff Ex. 9.0, 12:234-235.) When Moody's upgraded AIC during June 2012, it stated "[t]he upgrade of the ratings of Ameren Illinois reflects strong, stable cash flow coverage metrics and improved clarity on cost recovery following the passage of formula rate plan legislation in Illinois. Although the utility's regulatory framework remains challenging, legislative support for the recovery of prudently incurred investments is a step in the right direction towards better overall cost recovery prospects." (Id., Attach. E.) That is, from a credit rating perspective, Moody's viewed the formula rate plan as an overwhelmingly positive development in the Illinois regulatory environment. (Id., 13:243-245.) Similarly, S&P notes that the passage of SB 9 and the natural gas infrastructure rider for certain infrastructure investments support credit quality. (Id., Attach. F.) Moreover, the primary regulatory concern Fitch Ratings identifies in its credit rating report relates to an issue resolved by the recent passage of SB 9, i.e., the average rather than year-end rate base. Fitch Ratings notes further that AIC's forecasted credit metrics "alone would likely warrant a one-notch upgrade." (Id., Attach. I.)

Notably, Company witness Mr. John Perkins proposed a capital structure for the thirteen months ending June 30, 2013, comprising 49% common equity, for Orange & Rockland Utilities, Inc., which is a similarly rated electric utility that also operates in

regulatory environment described as "less credit supportive" by S&P and "challenging" by Moody's. (Staff Cross Ex. 16.) Nevertheless, AIC argues further, "[t]he rating agencies still have concerns related to AIC's regulatory environment. For example, in its June 13, 2013 AIC credit report, Moody's cautions that 'the ICC has a history of authorizing punitive rates of return and disallowances that led to contentious relationships with the utilities. The poor regulatory treatment has been a key negative credit factor for utilities operating in Illinois.'" (AIC IB, 95.) This statement, on its face, is not indicative of a balanced and unbiased assessment. For example, the same Moody's report cites the passage of EIMA and SB 9 as positive developments from a credit ratings standpoint. Nonetheless, the report also contradictorily states that the Company's Cash Flow to Operations pre-Working Capital/Debt ratio declined in 2012, which "decline in 2012 can be partly attributed to the 8.8% allowed return on equity (ROE) calculated under EIMA's formula rate in 2012, which is substantially lower than the ICC's 2010 electric rate order, which had established the allowed ROE at 10.2%." (Staff Ex. 9.0, 13-14:249-263 and Attach. G.) In other words, the so-called "punitive" Commission-established rate of return, 10.2%, is higher than that currently permitted under the recent EIMA. Also, the reference to "punitive . . . disallowances" makes no reference to the responsibility of Illinois utilities for proving the prudence and reasonableness of their actions. (Staff Ex. 9.0, 14:263-267.)

Apparently, Moody's itself had misgivings concerning the phrase "punitive rates of return and disallowances" because in less than two months, it removed that phrase from its August 23, 2013 Credit Opinion for Ameren Corp. (Ameren Ex. 20.2.) Likewise, the latest Moody's credit opinion for Commonwealth Edison Company ("ComEd") makes no reference to any ICC "history of authorizing punitive rates of return

and disallowances," despite the fact that Moody's assigns ComEd and AIC the same "Ba" rating for "Regulatory Framework" and "Baa" rating for "Ability to Recover Costs and Earn Returns" and the same overall rating of "Baa2." (Staff Ex. 9.0, Attach. H.) ComEd is also authorized the same ROE as AIC, which was applied to a 42.55% common equity ratio in its last rate order. In its current rate case, Docket No. 13-0318, ComEd proposed capital structure comprises 45.28% common equity. (Staff Ex. 9.0, 14:274-279.)

AIC takes issue with comparing AIC's equity ratio to ComEd's equity ratio. Specifically, AIC asserts "ComEd's equity ratio as computed by Moody's and used to evaluate creditworthiness and establish ratings is more than 200 basis points higher than AIC's. . . . Moreover, ComEd faces business fundamentals different from those facing AIC." (AIC IB, 96.) Foremost, there is no evidence that ComEd faces business fundamentals different from those facing AIC; rather, ComEd is the only other Illinois electric utility subject to the formula rate law. As for the Moody's equity ratio, as Company witness Martin acknowledged during cross-examination, Moody's debt to capitalization ratio includes deferred taxes in the denominator of that ratio. (Tr., 318:12 – 319:7, Sept. 18, 2013.) As such, all else equal, the greater the amount of a company's deferred taxes, the lower the resulting debt to capitalization ratio. When Ameren Corp. acquired Illinois Power Co., Illinois Power Co.'s deferred taxes were eliminated from its books, which would cause Illinois Power Co. (and ultimately AIC) to have a higher debt to capitalization ratio than ComEd (and conversely, a lower Moody's equity ratio). (Illinois Power Co., ICC Order Docket No. 04-0294, 38-39 (Sept. 22, 2004).)

AIC argues "the use of an imputed capital structure in this case would effectively lower AIC's actual return on equity by approximately 50 basis points, which could challenge its ability to attract investors and compete with other investment opportunities." (AIC IB, 91.) The Company's argument is flawed because the Company could address this challenge by lowering its common equity ratio to the level of the Commission-authorized equity ratio; thereby aligning the Company's authorized capital structure (and the resulting authorized return on equity) with its actual capital structure (and the resulting earned return on equity).

Nevertheless, AIC argues that Ameren Corp.'s equity ratio is not appropriate for AIC because (1) AIC's actual capital structure bears no relation to Ameren Corp.'s combined capital structure; and (2) Ameren Corp.'s equity ratio is affected by concerns related to Ameren Missouri and its unregulated generation affiliate – e.g., Ameren Corp.'s capital lease obligations. (AIC IB, 90.) AIC states further, if capital leases and merchant generation public debt are removed from Ameren Corp.'s capital structure, its equity ratio would increase to 52.5%. (Id.) Notably, while this hypothesizes why AIC's capital structure might be different from Ameren, it does not explain why AIC, a wires company, needs a higher common equity ratio than its parent company, whose subsidiaries include a merchant generation company and a vertically integrated utility that owns and operates a nuclear power plant. Foremost, when Staff calculated Ameren Corp.'s common equity ratio of 51.27%, Staff removed the $825 million in debt that Dynegy will assume with Dynegy's pending acquisition of Ameren Corp.'s merchant generation assets during 2013. (Staff Ex. 4.0, 7:124-127.) Furthermore, Staff does not recommend using Ameren Corp.'s debt costs or capital leases in AIC's ratemaking capital structure; rather, the basis for Staff's adjustment is that given a 51% common

equity ratio is sufficient for Ameren Corp., then it is more than sufficient for AIC given the lower business risk of the latter. (Staff Ex. 9.0, 7:113-116.) Specifically, S&P assigned AIC a business risk profile of "Excellent" while it assigned Ameren Corp. a business risk profile of "Strong."[3] (Staff Ex. 9.0, Attach. D.) Nevertheless, putting aside the basis for Staff's adjustment, it is not necessary to remove capital lease obligations from Ameren Corp.'s capital structure given capital lease obligations of Ameren Corp. represent leverage, which affects Ameren Corp.'s and its subsidiaries' (including AIC's) ability to issue conventional debt obligations in order for Ameren Corp. to maintain access to external capital on reasonable terms. That is, given Ameren Corp.'s operating risks, there is only so much financial leverage it can incur and still maintain investment grade creditworthiness. The financial leverage at the Ameren Corp. level crowds out financial leverage at the subsidiary level. This is particularly true where there is no effective structural separation of cash flows between the parent company and its subsidiaries, as S&P concluded to be the case for Ameren Corp. and its subsidiaries. Thus, there is a link between the combined capital structure of Ameren Corp. and the capital structure designed and maintained for AIC. (Staff Ex. 9.0, 7-8:120-133.)

AIC argues "there is no evidence AIC's affiliation with other Ameren subsidiaries had any effect on the cost of 2.7% debt AIC issued in 2012, which was issued at a Company record-low 10-year coupon rate." (AIC IB, 89.) To the contrary, AIC's actual secured debt ratings during August 2012 were A3/BBB. As explained previously, AIC's affiliation with unregulated and non-utility companies caused AIC to have an S&P credit

[3] S&P Business Risk Profiles are, in order of declining risk: Excellent, Strong, Satisfactory, Fair, Weak and Vulnerable. (Staff Ex. 9.0, 7, fn. 4.)

rating at least two notches lower than AIC would have absent those unregulated and non-utility companies. Thus, the proper comparison would be the spread investors required for secured debt ratings of A3/A-, rather than A3/BBB. During August 2012, 10-year utility bonds with AIC's standalone secured debt ratings of A3/A- had spreads of 65-70 basis points, whereas AIC's actual secured debt ratings of A3/BBB required a spread of 105 basis points. (Staff Group Cross Ex. 15.) Moreover, the Company's own documentation from July 2013 (after S&P had lifted AIC's credit rating one notch and stated that another notch increase was highly probable (Ameren Ex. 20.1.)) indicates that a one notch upgrade by S&P would result in new issue spreads for 10- and 30-year bonds that are 0-5 basis points lower than the current rate expected for new issues. (Staff Group Cross Ex. 15.) Nevertheless, the Company incorrectly implies that the coupon rate alone is sufficient to justify the Company's capital structure. If that were the case, since the interest rate on AIC debt would fall as its proportion in the capital structure falls, then the Company should maintain a capital structure that approaches 100% common equity. Of course, the interest rate on a single debt issue is insufficient for establishing that the entire capital structure is reasonable since a higher common equity ratio increases the weight that the higher cost capital component contributes to the overall rate of return on rate base. (Staff Ex. 9.0, 12:223-230.)

Importantly, the Company errs when it argues that EIMA mandates that the Commission use the Company's proposed December 31, 2012 capital structure to set rates in this proceeding (AIC IB, 82.) and that Staff's position is contrary to the EIMA. (Id., 88.) The AIC proposed capital structure is per se unlawful because it carries an excessive amount of equity, which would benefit its parent affiliate (Ameren Corp.), to the detriment of AIC ratepayers, who would pay for the excessive amount of equity. It

matters not how or why AIC came to its year end structure, it is *absolutely* precluded by the PUA. In other words, whether or not AIC made prudent decisions in reaching its capital structure is entirely immaterial. AIC's proposed capital structure is in and of itself illegal for the purpose of setting rates.

EIMA Does Not Mandate AIC's Actual Year End Capital Structure

AIC argues that "there is no question EIMA mandates use of AIC's 'actual' capital structure." (AIC IB, at 83.) AIC is incorrect because it refuses to acknowledge *all* the language in the relevant statutory provision.

As AIC asserts (Id.), EIMA is indeed quite clear. It provides in relevant part:

> The performance-based formula rate approved by the Commission shall . . . [r]eflect [AIC's] actual year-end capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness *consistent with Commission practice and law*.

(220 ILCS 5/16-108.5(c)(2) (emphasis added).)

In other words, AIC's actual year-end capital structure must be used *unless* it is inconsistent with Commission law and practice. The AIC argument that EIMA "mandates" the use of AIC's actual year-end capital structure is fatally flawed because AIC studiously, at least in this proceeding, resists acknowledging the language "consistent with Commission practice and law" contained in section16-108.5(c)(2). (220 ILCS 5/16-108.5(c)(2).)

EIMA clearly requires that first the Commission determine whether AIC's actual year-end capital structure is otherwise lawful. Unsurprisingly, the Illinois General Assembly reasoned that before a certain capital structure is used, it should be lawful. Of course, this fact should come as no surprise to AIC as it is the traditional practice in drafting statutes. Had the Illinois General Assembly wanted to *only* use actual year-end

capital structure under EIMA it would have said so. It did not do so. EIMA did not nullify Section 9-230 of the Act. In fact, EIMA clearly states the singular priority that a capital structure must first be lawful. In this proceeding, however, AIC's actual year-end capital structure is inherently unlawful because it violates Section 9-230 of the PUA.

Ironically, when it is in AIC's interest, it has no problem acknowledging and relying upon the language "consistent with Commission practice and law." In last year's AIC's Rate MAP-P Modernization Action Plan - Pricing Filing, AIC argues that:

> Section 16-108.5(c)(2) requires that the capital structure "reflect the utilities actual capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law." Consistent with Docket Nos. 04-0294 and 11-0282, AIC states that it has excluded goodwill from its capital structure as well as all other purchase accounting adjustments as a result of collapsing all purchase accounting adjustments together. *AIC argues that nothing in Section 16-108.5 invalidates the orders in prior dockets. To the contrary, AIC continues, the law directs it to continue to follow the Commission approved accounting ordered in 2004 and applied since that time.*

(AIC's Rate MAP-P Modernization Action Plan - Pricing Filing, ICC Order Docket No. 12-0001, 118 (Sept. 19, 2012) (emphasis added).)

In other words, when it suits its needs, AIC is fully capable of concluding that its proposed capital structure must first be determined to be lawful under EIMA. AIC's point in 12-0001, was that a prior Commission *precedent* was not trumped by EIMA. Of course, the Commission may change its precedent whenever it wants, as long as it articulates a rational reason for doing so. The Commission, however, may not change or ignore Section 9-230, as it is a statute. Consequently, AIC's argument above in 12-0001 is a much weaker argument than Staff's position in this proceeding. Thus, if AIC believed its position was right in 12-0001, than logic would dictate that it agrees with

Staff's position here; unless, that is, their statutory interpretation is merely opportunistic and thus not credible.

Section 9-230

As noted above, AIC's proposed capital structure is needlessly expensive due to an excessive amount of equity in violation of Section 9-230 of the Act. (220 ILCS 5/9-230.) Section 9-230 provides in relevant part that:

> In determining a reasonable rate of return upon investment for any public utility in any proceeding to establish rates or charges, the Commission *shall not* include *any* (i) incremental risk, [or] (ii) increased cost of capital . . . which is the direct or indirect result of the public utility's affiliation with unregulated or nonutility companies.

(220 ILCS 5/9-230 (emphasis added).)

Illinois courts have interpreted this provision *strictly* against the inclusion of any incremental risk or increased cost of capital in a utility's rate of return, if such incremental risk or increased cost of capital results from association with unregulated affiliates. Because equity costs more than debt, an excessive amount of equity in AIC's capital structure costs ratepayers more than necessary. Consequently, as Illinois courts have explained, the "more equity in a utility's capital structure, the higher the ROR must be to recover the cost of capital." (*Illinois Bell Telephone Co. v. Illinois Commerce Comm'n*, 283 Ill. App. 3d 188, 204, 669 N.E.2d 919, 931 (2d Dist. 1996)("*IBT*").) Consequently, the "more equity in a utility's capital structure, the higher the ROR must be to recover the cost of capital." (Id.; *see also Citizens Utility Board v. Illinois Commerce Comm'n*, 276 Ill. App. 3d 730, 744 (1st Dist. 1995)("*CUB*")("[S]ince equity always costs more than debt, as a corporation increases its proportion of equity, its total cost of capital generally increases, although the cost of debt and the cost of equity both decrease.").)

Section 9-230 Is An Absolute Barrier To AIC's Proposed Capital Structure

Moreover, as noted above, it does not matter how or why AIC reached its end year capital structure because it is absolutely precluded by Section 9-230. The IBT court explained this absolute and mandatory nature of Section 9-230:

> Section 9-230 does not allow the Commission to consider what portion of a utility's increased risk or cost of capital caused by affiliation is "reasonable" and therefore should be born by the utility's ratepayers; the legislature has determined that any increase whatsoever must be excluded from the ROR determination. *It is impermissible for the Commission to substitute its reasonableness standard for the legislature's absolute standard.* The Commission may not define a portion of the Act in a way that conflicts with a specific directive contained in the Act. [citation] We hold that if a utility's exposure to risk is *one iota greater*, or it pays *one dollar more for capital* because of its affiliation with an unregulated or nonutility company, the Commission must take steps to ensure that such increases do not enter in its ROR calculation.

(*IBT*, 283 Ill. App. 3d at 207, 669 N.E.2d at 933 (emphasis added; citation omitted).)

Two things are apparent from this holding. First, the Commission cannot consider AIC's proposed end year capital structure unless it makes a threshold determination that this capital structure in question satisfies the requirements of Section 9-230. Second, Section 9-230 absolutely bars, as a matter of law, the adoption of a capital structure which, as a result of affiliation, results in increased risk or increased cost of capital.

In other words, despite the many pleas and arguments put forth by AIC (AIC IB, 82-97.) that it made its decisions prudently and that it needs the end year common equity ratio in excess of 54% to stay competitive and access capital, all of these arguments do not matter under the absolute mandate of the Illinois General Assembly in Section 9-230.

The Commission has accepted similar capital structure adjustments in the previous AIC formula rate case, Docket Nos. 12-0293 and 12-0001. The Commission's Order in Docket No. 12-0293 states:

> AIC and Staff raise arguments on this issue very similar, and in some cases identical, to those they raised in Docket No. 12-0001… AIC proposes using a December 31, 2011 capital structure, which comprises 54.85% common equity. Staff measured a 53.26% average 2011 common equity ratio. Staff contends that neither of those capital structures would be appropriate for setting rates because both produce a rate of return that would violate Section 9-230 of the Act given that Ameren, AIC's parent company, had an average 2011 common equity ratio of 51.05% over the same measurement period. Because Illinois law bars the Commission from including any increased cost of capital resulting from a public utility's affiliation with any unregulated or non-utility companies, Staff insists that an adjustment to AIC's capital structure is necessary.

(Ameren Illinois Co., ICC Order Docket No. 12-0293, 106 (Dec. 5, 2012).)

The Commission concluded:

> Notably, in light of the recent discussion of this issue in Docket No. 12-0001, not all of the arguments made by AIC and Staff are summarized here. Having considered those arguments set forth above as well as those elsewhere in the record, the Commission rejects AIC's position and adopts Staff's position. . . . [t]he Commission is persuaded that Staff's imputed capital structure is appropriate. The Commission finds that AIC has lower operating risk than Ameren and now enjoys a more favorable regulatory environment under Public Acts 97-0616 and 97-0646. The Commission also notes that AIC has failed to identify any change in law or facts that justify deviating from the Commission's decision in Docket No. 12-0001. Accordingly, the Commission adopts Staff's imputed capital structure.

(Ameren Illinois Co., ICC Order Docket No. 12-0293, 108 (Dec. 5, 2012).)

Similarly, the Commission adjusted the capital structure of public utilities in accordance with Section 9-230 in a traditional rate case, Docket Nos. 11-0280/11-0281 (Cons.). In that case, the Commission concluded "the Companies' equity ratios of around 55% are higher than their riskier parent company's common equity ratio of about

52%. . . . The Commission is prevented by the Act and precedent from adopting a capital structure that reflects the increased risk of [the parent company]." (North Shore Gas Co. and the Peoples Gas Light and Coke Co., ICC Order Docket Nos. 11-0280/11-0281 (Cons.), 108-109 (Jan. 10, 2012).)

Finally, the Company argues "[u]se of a hypothetical structure also creates a fiction wherein the equity contributed by a parent to its subsidiary has one cost, while the equity contributed by public investors has another." (AIC IB, 93-94.) AIC wrongly directs this argument against imputed capital structures generally. Instead, this criticism concerns a specific type of imputed capital structure that employs double leverage. (*See* Ameren Ex. 5.0, 7:8 - 15:9.) However, as Staff's Initial Brief explains, Staff's proposed capital structure does not use double leverage. (Staff IB, 47-49.) Thus, the Company's arguments should be rejected in this proceeding.

In summary, AIC argues "AIC specifically managed . . . the 54.33% common equity ratio, to maintain strong credit metrics in order to access at a reasonable cost and in varied economic market conditions, the funding necessary to meet its increasing capital requirements in light of and despite concern expressed by the credit rating agencies in 2012 regarding the stability of the Illinois regulatory setting." (AIC IB, 84.) The Company's argument ignores that in AIC's last two formula rate cases, the Commission authorized common equity ratios of 51.49% and 51.00%. (Ameren Illinois Co., ICC Order Docket No. 12-0001, 128 (Sept. 19, 2012); Ameren Illinois Co., ICC Order Docket No. 12-0293, 106-108 (Dec. 5, 2012).) For nearly one year, AIC has been authorized rates of return under the formula rate plan that reflect common equity ratios of approximately 51% and has not even been placed on credit watch negative, let alone had any credit rating downgrades. Further, ComEd has been operating under the

same regulatory regime with a common equity ratio that has been at least five percentage points lower. Thus, a common equity ratio of 51% has been sufficient to maintain its existing credit rating, despite any concerns noted by the credit rating agencies regarding the Illinois regulatory environment.

2. Common Equity Balance

In Docket No. 12-0001, Staff proposed a common equity adjustment, which the Commission rejected for the following reason:

> The Commission has attempted to review the record carefully and cannot find an instance where AIC has violated any accounting rules. As the Commission understands it, accounting rules exist, in part, to protect the veracity of companies' financial statements. Because it appears that AIC has followed all accounting rules and Commission Orders relating to its accounting for purchase accounting, or push down accounting, the Commission rejects Staff's proposed adjustment to common equity balance.

(Ameren Illinois Co., ICC Order Docket No. 12-0001, 119 (Sept. 19, 2012).)

In this proceeding, however, Staff is not contesting AIC's claims that: (1) IP followed accounting rules when it adjusted its financial statements for purchase accounting as a consequence of its acquisition by Ameren Corp.; and (2) it followed accounting guidance in determining earnings available to common shareholders from purchase accounting net income and non-purchase accounting net income. (Staff Cross Ex. 9.) Rather, Staff's proposed adjustment to subtract from AIC's common equity balance approximately $105.5 million of net income related purchase accounting adjustments is because AIC failed to follow the Commission's Order in Docket No. 04-0294 to reverse all purchase accounting for ratemaking purposes and the Company's rationale for not making Staff's proposed adjustment is flawed. Specifically, the Company argues that it has eliminated income statement purchase accounting

adjustments by paying cash dividends, as shown in RMP 1.03 Attach. (Staff Cross Ex. 9; AIC IB, 100, 104-105.) This is patently false. As Staff explained, income statement purchase accounting adjustments will affect retained earnings until the Company reverses them for ratemaking purposes. (Staff Ex. 9.0, 2:29-31.) That is, the end-of-period balance of retained earnings will always reflect net income-related purchase accounting regardless of any other increments (e.g., non-purchase accounting-related net income) or other decrements (e.g., dividends). Therefore, payment of dividends does not cancel out net income related purchase accounting. (Id., 2-3:33-37.)

The Company further incorrectly argues that "Ms. Phipps' claim that common dividends cannot be paid out of retained earnings from purchase accounting is unsupported by accounting guidance for AIC's reporting of retained earnings included in common equity." (Ameren Ex. 18.0 (2d Rev.), 56:1159-1162.) Ms. Phipps did not assert that purchase accounting-related net income did not ultimately affect the balance of retained earnings. Further, Ms. Phipps did not assert that dividend payments do not ultimately affect the balance of retained earnings. To the contrary, while cash is necessary to pay dividends, a positive balance of retained earnings is not. (Illinois Power Co., ICC Order Docket No. 92-0415, 1993 Ill. PUC LEXIS 119, *57 (March 24, 1993).) In fact, the Company could not cite any law or accounting rule that requires that a company have a positive balance of retained earnings in order to pay dividends. (Tr. 216:5-20 (Sept. 17, 2013).) Therefore, the increase in AIC's balance of retained earnings realized by AIC's recording of purchase accounting related net income was not a necessary condition for the payment of dividends. That is, AIC's recording of purchase accounting related net income did not make possible the payment of dividends that would have been impossible otherwise. Interestingly, AIC admits that

Ameren witness Mr. Stafford was not following accounting guidance (or rules) when he allocated dividends to either purchase accounting net income or non-purchase accounting net income, as summarized in RMP 1.03 Attach, provided as ICC Staff Ex. 9.0, Attach. B. That is, AIC finally admits "[a]ll elimination of purchase accounting is for ratemaking purposes." (Staff Cross Ex. 9.) Thus, there is no merit to AIC's claim that Ms. Phipps' proposal to reverse net income purchase accounting adjustments violates accounting guidance (or rules). (Ameren Ex. 18.0 (2d Rev.), 55:1129-1131.) This is similar to the Commission's requirement that AmerenIP collapse all purchase accounting adjustments into Account 114, which is also a ratemaking adjustment that is not based on accounting guidance (or rules). (Staff Cross Ex. 9.) Accounting rules do not dictate ratemaking adjustments.

The Commission should not allow AIC to confuse an issue that is in the end very straightforward. In Docket No. 04-0294, the Commission ordered AmerenIP to reverse all purchase accounting for ratemaking purposes.[4] AmerenIP failed to comply with that directive. The Commission did not limit its directive to that portion of net income related purchase accounting adjustments that had been collapsed into Account 114 (i.e., $356,284,459). It did not carve out an exception for purchase accounting adjustments that had flowed into retained earnings through the income statement. Finally, the Commission did not provide Illinois Power an alternative to reversing its purchase accounting adjustments such as through common dividend "offsets."[5] The Company's

[4] As a condition of approval in Docket No. 04-0294, the Commission held "IP shall reverse the effects of push-down accounting for ratemaking purposes, and shall not reflect push-down adjustments for debt or preferred stock in its annual reports to the Commission. IP will reflect in Account 114, plant acquisition adjustments, the impacts of all push down accounting, for all Illinois regulatory purposes." (Illinois Power Co., ICC Order Docket No. 04-0294, Appendix A (Sept. 22, 2004).)

[5] The first four conditions of approval for Ameren's acquisition of Illinois Power address dividends. Not one of those four conditions, ties common dividend payments to the balance of retained earnings, net

arguments would have the Commission believe, however, that such fictional exceptions or carve outs were part of that directive. Such unfounded and unsubstantiated claims should be categorically rejected. Only the adoption of Staff's adjustment to AIC's common equity balance will finally result in compliance with the Commission's Order in Docket No. 04-0294. In summary, for all the foregoing reasons, Staff's adjustment to remove an additional $105.5 million of net income related purchase accounting adjustments from AIC's common equity balance should be adopted.

3. Balance and Embedded Cost of Long-Term Debt

AIC states:

> AIC's position is premised on the prudency of the transaction; Staff's position is premised on a misapplication of Commission precedent. . . . Staff recommends that the Commission disallow 57.41% of the premiums paid by AIC to redeem the 9.75% bonds, which equates to zero recovery on the first $50 million of the $87.1 million of bonds redeemed. Staff bases its proposal on the Commission's orders in AIC's last two gas rate cases: Dockets 09-0306, et al. (cons.) and 11-0282. The issues and facts in those cases, however, are different from those at bar.

(AIC IB, 107-108.) AIC argues further that the merger of the legacy companies (i.e., AmerenIP, AmerenCIPS and AmerenCILCO) negates any cross-subsidization concern. (Id., 109.)

The Company errs when it describes the Commission's concern with the original disallowance of $50 million 9.75% bonds as a cross-subsidization issue between AmerenIP and AmerenCIPS. (Id.) This argument is meritless on two levels. First, the

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income related purchase accounting specifically, or even purchase accounting generally. (Illinois Power Co., ICC Order Docket No. 04-0294, Appendix A (Sept. 22, 2004).) To the contrary, in adopting the four conditions that address the resumption of dividend payments, the Commission cited cash flow, not retained earnings, as the important consideration: "[t]he revised conditions proposed by Ameren and accepted by Staff provide a reasonable opportunity for IP to pay dividends, but protects the public interest in maintaining IP's financial integrity and insuring that it retains or has access to sufficient cash to meet its operating and capital requirements." (Illinois Power Co., ICC Order Docket No. 04-0294, 38 (Sept. 22, 2004)(emphasis added).)

Commission never described the $50 million in excess 9.75% bonds as a cross subsidization issue; rather, it framed its concern as a prudence issue (i.e., Did AmerenIP issue more long-term debt than was required?):

> The Commission notes that Staff recommends a long-term debt balance for AmerenIP of $1,307,983,675; approximately $50 million less than that recommended by AmerenIP, to reflect what Staff believes was excessive borrowing by AmerenIP to repay borrowing under bank facilities and the money pool. AmerenIP argues it was necessary to borrow $400 million because this was the amount of short-term debt outstanding at the time of the long-term borrowing.
>
> It appears to the Commission that AmerenIP issued more long-term debt than required for AmerenIP's utility operations, especially at a time when AmerenCIPS was relying on low cost money pool funds, contributed in part by AmerenIP, rather than resorting to the issuance of costly long-term debt. The Commission agrees with Staff that AmerenIP's proposal would unnecessarily burden ratepayers with $50 million in excess debt at a relatively high interest rate of 9.75%. The Commission will, therefore, adopt Staff's proposed long-term debt balance for AmerenIP for the purposes of this proceeding.

(Central Illinois Light Co. d/b/a AmerenCILCO, Central Illinois Public Service Co. d/b/a AmerenCIPS, Illinois Power Co. d/b/a Ameren IP, ICC Order Docket Nos. 09-0306 et al. (Cons.), 143 (April 29, 2010) ("09-0306 Order") (emphasis added).)

By using the word "especially," (rather than "given", "since" or "because") the Commission's Order indicates that while AmerenIP's loan to AmerenCIPS was the more important reason the Commission disallowed $50 million of long-term debt that AmerenIP did not require for utility operations, it was not the only reason. Although AmerenIP's loan to AmerenCIPS contributed to the former's $400 million balance of short-term debt, as noted in the Commission Order, AmerenIP could have reduced its $400 million long-term debt borrowing to $350 million had it not inexplicably taken a short-term $60 million loan from Ameren Corp. only to repay it two days later, the proceeds of which AmerenIP never used. (09-0306 Order, 142.) Thus, the language in

the Commission's Order referring to the AmerenIP to AmerenCIPS loan is not exclusionary.

On the second level, even if one were to wrongly interpret the disallowance of $50 million of the 9.75% bond issue as arising wholly from an improper cross-subsidization of AmerenCIPS, the ratemaking consequences of such cross-subsidization did not vanish with the merger of AmerenIP and AmerenCIPS. That is, the October 2010 merger of the Ameren Illinois utilities has no bearing on the disallowance in question because prudence determinations are based on the facts and circumstances at the time of the transaction in question and the consequences of the disallowed costs, not on subsequent events. (*See e.g., Illinois Power Co. v. Ill. Commerce Comm.,* 245 Ill. App. 3d 367, 371, 612 N.E.2d 925 (3rd Dist. 1993) ("[P]rudence has been defined as [t]hat standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made. In determining whether a judgment was prudently made, only those facts available at the time judgment was exercised can be considered. Hindsight review is impermissible.").) Thus, the Company's proposal is akin to a utility asking to recover the cost of demolishing plant that the Commission previously disallowed from rate base because such plant was not required for providing utility service. In summary, the Company's proposal would contravene the Commission's prior determination that AIC improperly issued $50 million more of long-term debt than required for its utility operations. (Staff Ex. 9.0, 4:58-63.)

Moreover, in Docket No. 11-0282, AIC argued that AmerenIP's actions were prudent during 2008 given the circumstances in the financial markets at that time, Staff's adjustment was based on hindsight and, consequently, unfair, and cross-subsidy

concerns are no longer valid given the merger of AmerenIP and AmerenCIPS in 2010. (Ameren Illinois Co., ICC Order Docket No. 11-0282, 64-65 (Jan. 10, 2012) ("11-0282 Order").) The Commission's Order in that case rejected those arguments by the Company and concluded as follows:

> The facts here are exactly the same and the Commission believes the results should be the same. The legal standard that apparently eludes AIC was previously stated. AIC's actions, if not adjusted in the ratemaking process, would unnecessarily burden ratepayers with $50 million in excess debt at a relatively high interest rate of 9.75%. Under the Act, AIC is allowed to recover from ratepayers a reasonable cost of capital but if allowed to pass on the cost associated with $50 million of relatively high cost debt that was not needed, the Commission finds that AmerenIP would effectively recover from ratepayers an excessive cost of capital.
>
> In other words, if the Commission failed to make the adjustment proposed by Staff, ratepayers would be burdened with an unreasonable cost of capital. It appears to the Commission that while the mathematical calculation proposed by Staff in this case is different from that adopted in AIC's previous case, the result is the same. The Commission finds that Staff's proposed adjustment for the 2008 AmerenIP debt issuance is reasonable and leads to a cost of long-term debt that is reasonable and should be adopted for purposes of this proceeding.

(Order, 75-76, ICC Docket No. 11-0282.)

AIC also argues Staff's adjustment in this case is "grossly disproportionate" from the adjustment in Docket No. 11-0282 because in that case, the Commission assigned a 7.39% cost to $50 million of the 9.75% bonds, which AIC equates to a 3% disallowance of the total cost of the 9.75% debt. AIC compares this percentage to the annual revenue requirement impact of approximately $1 million resulting from Staff's proposed adjustment in this case. (AIC IB, 111-112.) There are two problems with AIC's argument. First, AIC never explains the calculation for its estimate of an annual revenue requirement impact. Second, AIC errs by making an improper "apples to oranges" comparison of the revenue requirement effect, in dollars, of Staff's proposed

disallowance in the instant case versus the percentage effect of the interest expense disallowance in Docket No. 11-0282. Consequently, this argument should not be given any weight. Nevertheless, as explained below, if the Commission applied the same type of adjustment in this case as it did in Docket No. 11-0282, the dollar effect would be greater in this case due to the lower embedded cost of debt for 2012.

AIC errs when it alleges "in accordance with Docket No. 11-0282, AIC's 2012 actual capital structure reflects a cost for the first $50 million of the debt issuance at 7.31%, rather than the coupon rate of 9.75%. (AIC IB, 111.) To the contrary, the Company did not assign the embedded cost of debt to the $50 million of imprudently issued 9.75% bonds. Rather, the Company removed the imprudently issued 9.75% bonds and replaced it with $33,962,016 in redemption costs with an annual expense of $3,513,312. (Ameren Ex. 1.4R, 159.)

As background, in Docket No. 11-0282, Staff recommended assigning $350 million of the $400 million bonds the actual interest rate of 9.75% and $50 million of the $400 million bonds an interest rate that equaled the embedded cost of long-term debt because "removing $50 million in 9.75% bonds from AIC's long-term debt for the purpose of calculating the long-term debt balance would have the perverse result of a disallowance that increased AIC's ROR on rate base due to a shift in capital structure weights from lower cost debt to higher cost common equity." [6] (11-0282 Order at 70.) Thus, in Docket No. 11-0282, the Commission effectively reduced the interest rate on $50 million of the 9.75% bonds to 7.39%. This results in a disallowance of $1.18 million of interest expense from the calculation of the embedded cost of debt (i.e., [9.75% -

[6] This adjustment was necessary because in Docket No. 11-0282, Staff did not propose to remove a $58 million common equity infusion that Staff proposed removing in the previous rate case, Docket Nos. 09-0306 et al. (Cons.). (09-0306 Order at 145-146.)

7.39%] × $50 million = $1.18 million). A similar disallowance in this case would result in $1.325 million in disallowed interest expense (i.e., [9.75% - 7.10%] × $50 million = $1.325 million). In contrast, in Docket No. 09-0306 et al. (Cons.), the Commission disallowed interest expense totaling $4.875 million (i.e., 9.75% × $50 million). (09-0306 Order, 143.) In summary, the Commission has authorized a range of disallowances depending upon the adjustment required to effectuate removal of $50 million of the 9.75% bonds that were not required for utility operations in previous cases. Importantly, in this case, AIC chose the path that led to a greater adjustment than would have occurred had it chosen to reduce the balance of prudently issued 9.75% bonds by the full $87.1 million of redemption proceeds rather than assigning $50 million of those proceeds to the elimination of the $50 million of imprudently issued 9.75% bonds.[7] (Staff IB, 54.)

AIC speculates that "even if AmerenCIPS had paid back the $50 million loan in 2008 and replaced it with its own long-term debt, AIC likely would have redeemed that debt in 2012 as well, given the new rate of 2.70%, which is much lower than the relatively high interest rates experienced during the 2008 credit crisis." (AIC IB, 111.) When asked to specify how AmerenCIPS would have raised capital in lieu of borrowing from AmerenIP during October 2008, Mr. Martin states "I can't comment with any degree of certainty or specificity as to what AmerenCIPS would have done in 2008 if AmerenIP had not loaned AmerenCIPS $50 million. Perhaps AmerenCIPS would have borrowed $50 million from its credit facility in October 2008 and then eventually issued

[7] As noted above, assigning the 7.10% embedded cost of debt to $50 million 9.75% bonds would result in disallowed interest expense of $1.325 million. In contrast, removing the pro rata share of the costs associated with redeeming $50 million of 9.75% bonds would result in disallowed interest expense of $2.018 million – i.e., the Company's annual amortization expense for the redeemed bonds of $3,513,312, less Staff's adjusted annual amortization expense for the redeemed bonds of $1,495,355. (Ameren Ex. 1.4R, 159; Staff Ex. 4.0, Sch. 4.03, 3.)

$50 million in long-term debt." (Staff Group Cross Ex. 15.) In other words, AIC does not even know how CIPS would have replaced the loan from AmerenIP, let alone the interest rate, maturity date and the terms for redeeming this hypothetical debt issue before its maturity date.[8] Yet, the feasibility, and cost, of redeeming that hypothetical debt before its maturity debt would depend on its terms. As Mr. Martin acknowledged,

> [t]here are many factors that affect which issues AIC chooses to redeem if any. These factors include, but are not limited to: bond coupon rate, bond structure and maturity date, bond ownership profile, current interest rates and AIC credit spreads, and the net present value of the bond's projected redemption terms and refinance terms on a matched maturity basis, which itself is based on a number of the factors previously listed.

(Id.)

In fact, in this alternative reality, in which AmerenIP had issued only $350 million of 9.75% bonds and AmerenCIPS had issued $50 million of bonds at an unknown interest rate, an unknown maturity date, and on unknown terms for early redemption, the possibility remains that AIC would have still redeemed $87.1 million of AmerenIP's 9.75% bonds. Of course, the critical difference under this scenario is that the outstanding balance of 9.75% bonds would be not $312.9 million, as AIC proposes (i.e., $400 million original issue amount less $87.1 million in redemptions (Ameren Ex. 1.4R, 157)), but $262.9 million (i.e., $350 million of prudently issued 9.75% bonds less $87.1 million in redemptions), thus, reducing the burden of 9.75% debt by an additional $50 million. In any event, the premiums associated with the 9.75% bonds would likely exceed any premiums associated with hypothetical lower rate bonds, given the Company's acknowledgment that, "[a]s a general rule, higher coupon rate debt requires a higher premium to entice bondholders to tender their securities. One simply has to

[8] For example, if AmerenCIPS had replaced its loan from AmerenIP with debt with a maturity date of four or fewer years, the replacement debt issue would have been replaced without early redemption penalties.

pay more to get an investor to give up a bond paying 9.75% than one has to pay to get an investor to give up a bond paying 6.25%." (Staff Group Cross Ex. 15.) In summary, the Company's wildly speculative argument is based on conjecture regarding the timing and type of substitute capital AmerenCIPS may have needed in lieu of the $50 million intercompany loan from AmerenIP as well as whether AmerenCIPS would have refunded such substitute capital during August 2012 with the proceeds of the 2.70% bonds. Thus, the Company attempts to improperly substitute impaired hindsight for that of prudent judgment; as such, the Company's arguments should be rejected.

For all the foregoing reasons, the Commission should adopt Staff's adjustment, which would prevent ratepayers from paying costs associated with $50 million more in long-term debt than AmerenIP required for its utility operations during October 2008. (11-0282 Order, 75-76.)

4. Balance and Embedded Cost of Short-Term Debt, including Cost of Credit Facilities

The contested issue regarding bank commitment fees relates to the amount of the recoverable annual credit facility fees. Relying upon AIC's lower credit rating from S&P on December 31, 2012 would result in rates that reflect an incremental increase in the cost of capital due to AIC's affiliation with unregulated and non-utility companies, which would violate Section 9-230 of the Act. Thus, Ms. Phipps recommends an annual fee that is based on AIC's corporate credit rating from S&P, absent AIC's affiliation with merchant generation operations, pursuant to Section 9-230 of the Act. (Staff IB, 54-56.)

The Company argues that "Staff's position ignores it is just as easy to speculate as to occurrences that would drive AIC's credit rating down." (AIC IB, 114.) The Company mischaracterizes Staff's position and the factors it refers to as "offsetting risks

that that could preclude an upgrade." (Id.) That is, Staff's adjustment is premised on the clear language in the S&P report that indicates, all else equal, AIC would be rated two notches higher than where it was in 2012 if not for its affiliation with unregulated and non-utility companies. Those "offsetting risks that could preclude an upgrade," as AIC refers to them, are distinguishable from the effect of the unregulated and non-utility affiliates. As such, the Company's argument should be given little weight in this proceeding and the Commission should adopt Staff's proposed cost of credit facility fees, which are limited in accordance with Section 9-230 of the Act.

In summary, (1) S&P notes that AIC's affiliation with Ameren Corp. subsidiaries has caused the Company to be rated lower than it would absent the effects of Ameren Corp.'s merchant generating business; and (2) the credit facility fee that AIC pays is directly based on the ratings assigned by Moody's and S&P. (Staff Group Cross Ex. 15.) Therefore, AIC's argument that "an upgrade from S&P resulting specifically from Ameren's divestiture of its merchant generation segment is unlikely to have any significant impact on AIC's cost of debt" (Ameren Ex. 12.0 (Rev.), 11:222-224.) contradicts the facts, is unfounded, and fails to meet the Section 9-230 requirement that the Commission remove the last "iota" of the increase in cost of capital due to AIC's affiliation with unregulated and non-utility companies. (Staff Ex. 9.0, 5:79-82.)

C. Recommended Overall Rate of Return on Rate Base

1. Filing Year

Staff recommends a 7.96% rate of return on rate base for AIC's electric delivery services, based on a capital structure comprising 51.00% common equity, 1.72% preferred stock and 47.28% long-term debt. (Staff IB, 56.)

2. Reconciliation Year

Staff recommends an 8.01% rate of return on rate base for reconciliation purposes, which reflects an 8.82% return on common equity. (Staff IB, 56-57.)

V. COST OF SERVICE AND RATE DESIGN

A. Resolved Issues

VI. FORMULA RATE TARIFF

A. Separate Proceeding in Docket Nos. 13-0501/13-0517 to Litigate Merits of Proposed Template Changes

B. Process for Implementation of Formula Rate Template Changes in Docket No. 13-0301, if approved in Docket Nos. 13-0501/13-0517

C. Proposed Template Changes in Docket Nos. 13-0501/13-0517 (for Purpose of Identification of Revenue Requirement Impact if Approved)

1. Uncollectible Expenses in the Reconciliation Year

2. Gross-up of Reconciliation with Interest and/or Collar revenue requirement adjustments for Uncollectible Expense

3. Year-end balances for Materials & Supplies and Customer Deposits

4. Depreciation Expense

5. Separate Cash Working Capital Calculation for Filing and Reconciliation Year

6. Return on Equity Collar Calculation

7. Reconciliation Interest Calculation

D. Recommended Revenue Requirement

1. Filing Year

2. Reconciliation Year

VII. OTHER ISSUES

A. Resolved Issues

1. UCB/POR Program Costs

2. FERC Order – Docket No. AC 11-46-000

3. Reporting Requirement – FERC Form 60

4. Reporting Requirement – Service Company Allocations

5. Reporting Requirement – FERC Orders

6. Supply Cost Adjustments Under Rider PER

7. Categorization EIMA Plant Additions – Formula Rate Proceedings

8. Reporting of EIMA Costs – Formula Rate Proceedings

B. Contested Issues

1. Use of Traditional Ratemaking Schedules in Formula Rate Proceedings

The use of *only* the "traditional" revenue requirement schedules as appendices to the final order in formula rate proceedings is not merely a Staff "preference," as the Company claims. (AIC IB, 120-121.) The Commission has specifically found this to be the case in not just formula rate update cases, but in Commonwealth Edison Company's formula rate update case that included its first reconciliation in Docket No. 12-0321. (Staff IB, 68-69.) The Company ignores this clear precedent, and claims that unless the Appendix to the Final Order also includes a populated formula template, it

will be difficult to determine if the recommended cost input adjustments are compatible with the template. (AIC IB, 121.) The Company's argument here falls short in light of the cross examination of Company witness Stafford, wherein he was unable to directly trace amounts included in his own exhibits. (Staff IB, 69-70.) Further, issues concerning the definition and approvals necessary for the "formula template" are currently under consideration in Docket No. 13-0501/13-0517 (Cons.). (*See* Staff Ex. 8.0, Docket No. 13-0501/13-0517.) As Staff discussed in its IB, the Company's argument to use all the populated formula rate schedules and appendices as an appendix to the Final Order, would have the adverse effect of unreasonably limiting the adjustments that the parties could propose, and in fact, would dictate what reasonable and prudent adjustments the Commission could approve in a formula update case. (Id., 67.)

The Commission should reaffirm that the traditional revenue requirement model continue to be included as the Appendix to the Final Order.

2. Preparation of Exhibits, Schedules, and Workpapers in Formula Rate Proceedings

In its IB, Ameren completely mischaracterizes Staff's testimony by stating that Ms. Ebrey noted that AIC had provided "sufficiently transparent information in its rebuttal testimony." (AIC IB, 122.) It is hard to discern how AIC could infer such meaning from Ms. Ebrey's rebuttal testimony. Ms. Ebrey's rebuttal testimony acknowledged that Mr. Stafford had specifically addressed two of the concerns raised in her direct testimony, but that no commitment was made to increase transparency in future filings. (Staff Ex. 6.0, 27-28:545 – 574.) The time spent conducting multiple rounds of discovery, coupled with telephone calls to further clarify the responses to that

discovery can only be shortened by the Company's effort to ensure that all information in future filings be adequately identified, and that all data directly traces to the various supporting documents. The Company claims the working spreadsheets provided to Staff enable the user to "trace all schedules, workpapers, and exhibits back to other documents containing the same information." (AIC IB, 123.) This statement was proven false through the cross examination of Mr. Stafford, as even he could not trace schedules, workpapers, and exhibits back to other documents containing the same information. (Staff IB, 69-70.)

Ameren also faults the arguments presented by Staff witness Knepler concerning the quality of Ameren's filing. While not responding to each point raised by Ameren, Staff believes the following replies are noteworthy. First, Ameren states that "[t]he instant proceeding is AIC's third electric formula rate proceeding, and Staff has not voiced any previous concerns regarding problems with AIC's schedules, exhibits, or workpapers, or issues in the discovery process, in previous proceedings. (AIC IB, 123.) This statement is not true. Staff and the Commission addressed Ameren presentation in the first formula rate proceeding:

> The Commission understands that Staff is recommending a general disallowance of expenses from Account 909 because it has not been able to tie specific invoices to particular advertising expenses that AIC seek to recover from customers.

(Staff IB, 71 (quoting Ameren Illinois Company, ICC Order Docket No. 12-0001, 92 (Sept 19, 2012)).)

Second, is Ameren's statement that "Staff witness Knepler did not issue any data requests in this proceeding, despite his list of concerns." (AIC IB, 123.) Again, that statement is false. Mr. Knepler issued three series of data requests on August 1, 2013,

August 9, 2013, and August 20, 2013, respectively. These DRs and Ameren's responses are entered into the record as Attachments A, B, and C, respectively, to Mr. Knepler's rebuttal testimony. (Staff Ex. 10.0, Attach. A, B, and C.) These DRs and Ameren's responses provide examples of how schedules and related workpapers can be simplified by combining the information.

Third, Ameren states "Mr. Knepler's recommendations appear to be based on his review of the unrevised schedules provided by AIC witness Mr. Kennedy in its initial filing." (AIC IB., 123.) This is precisely the point of Staff's concern – that it takes entirely too much of Staff's time and resources to "unravel" Ameren's initial presentation. Ameren should not be allowed use the "discovery delay" to its advantage. Ameren cannot have it both ways – expect Staff to spend considerable time unraveling its direct case – and then complain that Staff has not issued discovery.

Fourth, Ameren believes a combined presentation containing the required information from a schedule and a related workpaper in a single document would result in a Part 285 violation. Staff disagrees. Staff believes that combining such information into a single document lessens the chance for error by the Company while facilitating the review process. (Staff Ex. 10.0, 17:373-375.) Attachment A of Staff Ex. 5.0 is such an example.

Therefore, Staff is maintaining its recommendation that the Commission enter a finding directing Ameren to improve the quality of its schedules and workpapers.

VIII. CONCLUSION

WHEREFORE, for all of the reasons set forth in its Initial Brief and this Reply Brief, Staff respectfully requests that the Commission's order in this proceeding reflect

all of Staff's recommendations regarding AIC's request for approval of its updated cost inputs for its Modernization Action Plan - Pricing tariff, Rate MAP-P and corresponding new charges.

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Respectfully submitted,

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KIMBERLY J. SWAN
JAMES V. OLIVERO
MICHAEL J. LANNON
Staff Counsel

JAMES V. OLIVERO
Office of General Counsel
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701
Phone: (217) 785-3808
jolivero@icc.illinois.gov

KIMBERLY J. SWAN
MICHAEL J. LANNON
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle St., Suite C-800
Chicago, IL 60601
Phone: (312) 792-2877
kswan@icc.illinois.gov
mlannon@icc.illinois.gov